



## LEGISLATIVE BRIEFING

Iowa Department of Education

# Cash and Authority in Local School Districts

### ➔ What is the issue?

When looking at the financial condition of school districts in Iowa, it is valuable to look at the relationship between the amount of cash a district has and how much it is authorized to spend — cash versus authority.

The term “authority,” simply put, is the authorization to spend a certain amount of cash. Just because a district is given the authority to spend a certain amount doesn’t mean it has the cash. The authority that comes with the formula in part means the ability for a local district to levy local property taxes. Likewise, just because a district has cash and the authority to spend it does not necessarily mean that districts will spend the money.

The authority left at the end of the year is referred to as the unspent balance, which may either be positive or negative. This unspent balance, either positive or negative, carries over from year to year, just like cash balances. Over time, cash balances and the unspent balance can diverge.

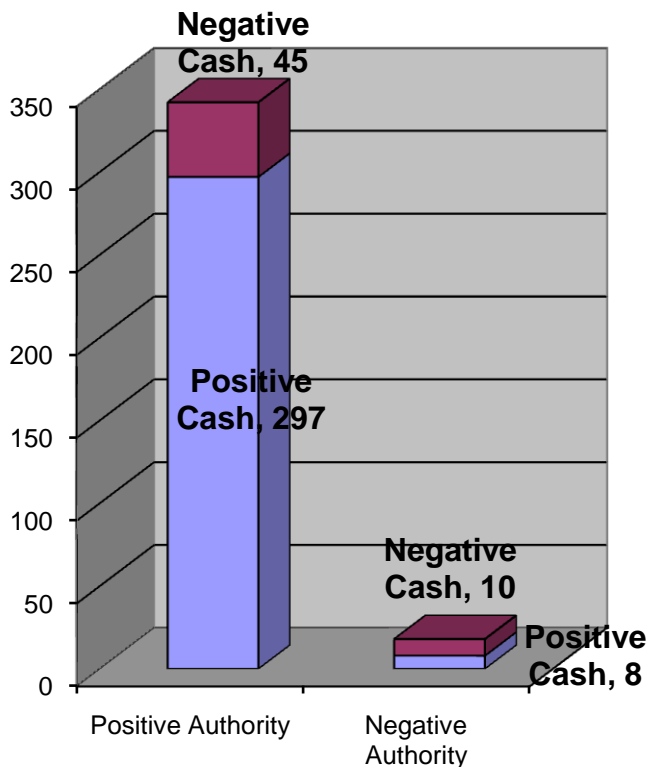
How do districts’ cash and authority track over the course of a year? Do they have the authority they need to spend the cash they have? To shed light on these questions, the unspent balances left at the end of Fiscal Year (FY) 2008 are compared to the unobligated cash balances at the end of FY2008 as reported on the Certified Annual Report (CAR). Unobligated cash balances in this instance are technically undesignated, unreserved fund balances per the Uniform Financial Accounting definition. Districts with negative cash may still have cash, but their cash is already designated or reserved for a purpose.

### ➔ Where does this issue currently stand?

There were 297 local school districts that had both positive cash and some positive authority at the end of FY2008. This means there were 297 districts that still had unobligated money and ability to spend some of that money. What was the relationship between the unobligated cash and the unused authority for these districts?

(Continued)

**District Authority and Unobligated Cash  
Count of Districts by Category For FY 2008**





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Districts with Left-over Positive Cash and Positive Authority per FY2008 CAR Ending Balances (N=297)
<b>Three-quarters</b> of the districts had the authority to spend at least 36% of the unobligated cash they had on hand.
<b>One-half</b> of the districts had the authority to spend at least 57% of the unobligated cash they had on hand.
<b>One-quarter</b> of the districts had the authority to spend at least 83% of the unobligated cash they had on hand.
<b>16.8%</b> of the districts had the authority to spend all the unobligated cash they had on hand.

In these 297 districts, remaining authority (unspent balances) ranged from \$15,569 to \$25 million and unobligated cash (undesignated, unreserved) ranged from slightly over break even at \$845 to \$21 million.

Of course, a local school district or business cannot spend all the cash it has on hand. They need a reserve or float so they can cash flow expenditures when money is not coming in. Just like businesses, districts have an uneven cash flow: they only receive state aid payments 10 out of the 12 months in a year. This is why local school districts have the ability to levy for a reserve. However, the amount of districts' reserves is not an agreed upon or set percentage — the reserve percentage is conceptualized as a percent of its annual expenditure. In fact, the School Budget Review Committee has been studying the issue and debating the merits of setting a percentage and what that percentage would be.

Therefore, to realistically consider the relationship between the remaining authority and the unobligated cash on hand, one must account for districts' reserves. Following is a table that subtracts different reserve percentages — 25, 20, 16.7, 15, and 10 percent — from the unobligated cash districts have on hand and then reports the cumulative amount left over (e.g., the overage). All of the districts included in the cumulative overages had the authority remaining to cover or expend the amount of the overage according to their FY2008 CARs.

Unobligated Cash Available to Spend Once Reserves Filled					
	Overage @ 25% reserve of expenditures	Overage @ 20% reserve of expenditures	Overage @ 16.7% reserve of expenditures	Overage @ 15% reserve of expenditures	Overage @ 10% reserve of expenditures
Districts that have cash remaining after various reserve thresholds covered	30	57	80	95	158
Total sum of districts' overages	\$8,899,580.97	\$18,883,415.44	\$30,430,394.49	\$38,539,368.43	\$85,367,438.17
<b>Note:</b> The definition of cash is such that anything reserved or designated by districts is NOT included. Also note all these districts have the remaining authority (unspent balance) to spend the amounts beyond their reserves.					

### Analysis Notes:

These are the best available data at the time of the analysis. The CAR data are from 12/23/08. At that time, 34 districts were not certified. In addition, the data are "dirty": for instance, edits — computer script that checks for accounting errors — has not been fully run yet. Data will not be final for several more months. Further, while the edits are designed to catch inadvertent errors, some districts have more experienced professional staff and there are some others that have staff who may be inexperienced and book something so unusual that Iowa Department of Education could have never conceived of it.

### ➔ Where can I get more information?

Please contact the Iowa Department of Education at (515) 281-5293.